DPE100/004/2015

8 December 2015

To: Public Service Employers and Pension-Paying Authorities

Circular 18/2015: Changes to the Public Service Pension Reduction (PSPR)

1. This circular notifies public service employers and pension-paying authorities of changes to the Public Service Pension Reduction (PSPR) which have been legislated as part of the Financial Emergency Measures in the Public Interest Act 2015 ("FEMPI 2015"). It also provides information on certain matters related to these changes, notably the "grace period" for pension awards, which has lately been extended to 1 April 2019.

2. The PSPR changes take effect in three stages, on 1 January 2016, 1 January 2017 and 1 January 2018, and consist of adjustments to the entry thresholds, bands and rates of PSPR. The changes will remove or considerably lessen the PSPR burden on affected public service pensioners. **Tables setting out the revised PSPR rates are in paragraph 8 of this circular.**

Background

3. **PSPR was introduced on 1 January 2011** under the Financial Emergency Measures in the Public Interest Act 2010 ("FEMPI 2010"). Subject to an exemption for all pensions up to €12,000, it cut pensions then in payment, along with new pensions awarded until the expiry, at end-February 2012, of the 2010–2012 "grace period". During that grace period new retirement pensions were, exceptionally, awarded by reference to higher salaries than the retirees actually earned (being the salaries paid just before the public service pay cuts of January 2010).

4. The PSPR table implementing this PSPR regime was **adjusted on 1 January 2012** by the addition of a 20% rate on any excess over €100,000 in a pension's pre-PSPR value. Inclusive of that adjustment the original PSPR table was as follows:

Original PSPR rates *	
Annualised amount of public service pension	*Reduction ** *
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	6%
Any amount over €24,000 but not over €60,000	9%
Any amount over €60,000 but not over €100,000	12%
Any amount over €100,000	20%

* Adjusted to include 20% top rate introduced on 1 January 2012 (previously 12% on any amount over €60,000).

** The band-specific reduction rates (in this and every other PSPR table) refer to the slices of pension income in each band; they do not apply to the entire pension.

PSPR rates from 1 July 2013 to 31 December 2015

5. Pensions awarded in respect of retirements after the 2010–2012 grace period (i.e. after end-February 2012) were initially fully exempt from PSPR. This changed with the enactment of the Financial Emergency Measures in the Public Interest Act 2013 ("FEMPI 2013"), which increased and extended PSPR to extract extra revenue from **all** higher value public service pensions. **The full PSPR position following FEMPI 2013, which is the position prevailing from 1 July 2013 to 31 December 2015**, is set out below, with pensions falling into three groups:

<u>Group 1: Pre-March 2012 pensions up to €34,132 (before PSPR)</u>
PSPR continued to apply to these pensions based on the original PSPR rates as given in the table at paragraph 4 above. That table is repeated here in shortened form, excluding the two highest money bands, which are not relevant to pensions up to €34,132:

Group 1 pensions – PSPR to 31 December 2015	
Annualised amount of public service pension	*Reduction*
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	6%
Any amount over €24,000	9%

<u>Group 2: Pre-March 2012 pensions greater than €34,132 (before PSPR)</u>
Under FEMPI 2013, the PSPR imposition on these pensions increased, effective 1 July 2013, by way of higher reduction percentages than applied in the prior PSPR table, as follows:

Group 2 pensions – PSPR from 1 July 2013 to 31 December 2015	
Annualised amount of public service pension	*Reduction*
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	8%
Any amount over €24,000 but not over €60,000	12%
Any amount over €60,000 but not over €100,000	17%
Any amount over €100,000	28%

<u>Group 3: Post-February 2012 pensions greater than €32,500 (before PSPR)</u>
Under FEMPI 2013, and effective 1 July 2013, PSPR was, for the first time, applied to pensions awarded in respect of retirements after the 2010–2012 grace period (i.e. after end-February 2012), **but only where the pre-PSPR value of the pensions exceeded €32,500.** The PSPR table for these Group 3 pensions (which do not benefit from being based on pre-2010 salaries, and so attract lower PSPR reduction percentages than Groups 1 and 2), is set out below:

Group 3 pensions – PSPR from 1 July 2013 to 31 December 2015	
Annualised amount of public service pension	*Reduction*
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	2%
Any amount over €24,000 but not over €60,000	3%

Any amount over €60,000 but not over €100,000	5%
Any amount over €100,000	8%

FEMPI 2015 – PSPR changes in three stages commencing 1 January 2016

6. The Financial Emergency Measures in the Public Interest Act 2015 ("FEMPI 2015") became law on 27 November 2015. Its principal measures are a set of partial reversals of the pay and pension cuts imposed on public service workers and retirees under the earlier FEMPI Acts. The Minister for Public Expenditure and Reform has signed a commencement order giving effect to these pay and pension changes (S.I. No. 546/2015 – Financial Emergency Measures in the Public Interest Act 2015 (Commencement) Order 2015).

7. Sections 6 and 7 of FEMPI 2015, by amending the foundation PSPR law, the Financial Emergency Measures in the Public Interest Act 2010 ("FEMPI 2010"), lessen the impact of the PSPR on all PSPR-affected pensions. This is done mainly by increasing the thresholds or money exemption points at which an actual exposure to PSPR arises, and also by decreasing some PSPR reduction rates at particular money bands of a public service pension.

8. Specifically, and as set out below by reference to the three PSPR-impacted pension groups distinguished in paragraph 5 above, FEMPI 2015 puts in place revised PSPR tables on 1 January 2016, 1 January 2017 and 1 January 2018, as follows:

(i) <u>Group 1: Pre-March 2012 pensions up to €34,132 (before PSPR)</u>

1 January 2016:

TABLE A1 (Group 1): PSPR from 1 January 2016 to 31 December 2016	
Annualised amount of public service pension	*Reduction*
Up to €18,700	Exempt
Any amount over €18,700 but not over €24,000	6%
Any amount over €24,000	9%

1 January 2017:

TABLE B1 (Group 1): 1 PSPR from 1 January 2017 to 31 December 2017	
Annualised amount of public service pension	*Reduction*
Up to €26,000	Exempt
Any amount over €26,000	9%

1 January 2018:

TABLE C1 (Group 1): PSPR from 1 January 2018 onwards	
Annualised amount of public service pension	*Reduction*
Up to €34,132	Exempt
(PSPR is effectively eliminated for Group 1 pensions from 1 January 2018.)	

Application of above Group 1 tables:

These tables above should be applied exactly as written for all Group 1 pensions.

(ii) <u>Group 2: Pre-March 2012 pensions greater than €34,132 (before PSPR)</u>

1 January 2016:

TABLE A2 (Group 2): PSPR from 1 January 2016 to 31 December 2016	
Annualised amount of public service pension	*Reduction*
Up to €17,000	Exempt
Any amount over €17,000 but not over €24,000	8%
Any amount over €24,000 but not over €60,000	12%
Any amount over €60,000 but not over €100,000	17%
Any amount over €100,000	28%

1 January 2017:

TABLE B2 (Group 2): PSPR from 1 January 2017 to 31 December 2017	
Annualised amount of public service pension	*Reduction*
Up to €22,000	Exempt
Any amount over €22,000 but not over €24,000	3%
Any amount over €24,000 but not over €60,000	12%
Any amount over €60,000 but not over €100,000	17%
Any amount over €100,000	28%

1 January 2018:

TABLE C2 (Group 2): PSPR from 1 January 2018 onwards	
Annualised amount of public service pension	*Reduction*
Up to €30,000	Exempt
Any amount over €30,000 but not over €60,000	12%
Any amount over €60,000 but not over €100,000	17%
Any amount over €100,000	28%

Application of above Group 2 tables:

These tables should be applied exactly as written for all Group 2 pensions, **except** that in a **small number of cases** the post-PSPR value obtained by application of a table must be given a **special increase.** This only arises for the following narrow ranges of pre-PSPR pension value:

- From 1 January 2016 – Table A2 (Group 2): Over €34,132 up to €34,753
- From 1 January 2017 – Table B2 (Group 2): Over €34,132 up to €34,750
- From 1 January 2018 – Table C2 (Group 2): Over €34,132 up to €34,695

This **special increase** arises only where applying a Group 2 table gives a post-PSPR value lower than the same-year post-PSPR value of the highest Group 1 pension (€34,132 before PSPR). The extent of the **special increase is the extra amount, in excess of the value obtained via the table, needed to make the pension's post-PSPR value equal to the post-PSPR value of the highest Group 1 pension.** In this way the special increase, in the small

proportion of cases where it arises, ensures that any Group 2 pension, which is by definition higher than the highest Group 1 pension before PSPR, does not become lower than such a pension after PSPR is applied to them both.
For example, a Group 2 pension of pre-PSPR value €34,500 would, after application of Table A2 above, have a 2016 post-PSPR value of **€32,680**. That would be lower than **€32,902**, the 2016 post-PSPR value of the highest Group 1 pension, reversing the two pensions' pre-PSPR value order (€34,500 and €34,132 respectively). That would be a clear anomaly, so a **special increase** is added to lift the Group 2 pension's post-PSPR value from €32,680 to €32,902.

For reference, the **minimum post-PSPR values of a Group 2 pension**, following application of any relevant table above (Tables A2, B2 or C2) and of any due **special increase**, are as follows:

- From 1 January 2016 – Table A2 (Group 2): €32,902
- From 1 January 2017 – Table B2 (Group 2): €33,400
- From 1 January 2018 – Table C2 (Group 2): €34,132

The **special increase** described above is provided for in section 2(4) of FEMPI 2010, inserted by section 6(1)(b) of FEMPI 2015.

(iii) Group 3: Post-February 2012 pensions greater than €32,500 (before PSPR)

1 January 2016:

TABLE A3 (Group 3): PSPR from 1 January 2016 to 31 December 2016	
Annualised amount of public service pension	*Reduction*
Up to €29,300	Exempt
Any amount over €29,300 but not over €60,000	3%
Any amount over €60,000 but not over €100,000	5%
Any amount over €100,000	8%

1 January 2017:

TABLE B3 (Group 3): PSPR from 1 January 2017 to 31 December 2017	
Annualised amount of public service pension	*Reduction*
Up to €39,000	Exempt
Any amount over €39,000 but not over €60,000	2%
Any amount over €60,000 but not over €100,000	5%
Any amount over €100,000	8%

1 January 2018:

TABLE C3 (Group 3): PSPR from 1 January 2018 onwards	
Annualised amount of public service pension	*Reduction*
Up to €60,000	Exempt
Any amount over €60,000 but not over €100,000	5%
Any amount over €100,000	8%

Application of above Group 3 tables:

These tables above should be applied exactly as written for all Group 3 pensions.

Pension awards for new retirees, FEMPI 2013 grace period

9. A second grace period is provided for under section 9 of FEMPI 2013. It began on 1 July 2013, and is due to end on 1 April 2019, having been extended to that date by the Minister for Public Expenditure and Reform (S.I. No. 547/2015 – Public Service Pensions Rights (No. 2) Order 2015).

10. Public servants who retire during this extended FEMPI 2013 grace period may benefit from it in two ways, by having their pensions and retirement lump sums calculated

(i) by reference to salary rates **which discount any impact of the FEMPI 2013 salary cuts** (those cuts applied above the €65,000 level);

(ii) in a manner which discounts the effect of any FEMPI 2013 suspension of the operation of a pay scale (**increment freeze or delay**).

11. This concessionary basis of pension award—**pensionable pay for benefitting persons who retire set higher than actual retirement-time pay**—is what defines the current (FEMPI 2013) grace period. Pensions awarded in respect of public servants retiring during this grace period are liable to PSPR if the pre-PSPR pension value exceeds the applicable exemption thresholds, being €32,500 until end-2016, €39,000 during 2017 and €60,000 from 2018 – see "Group 3" pensions at paragraphs 5 and 8(iii) above.

12. Under current law, pensions awarded in respect of retirements after the FEMPI 2013 grace period, which is due to end on 1 April 2019, will not be subject to PSPR.

Dependant pensions and PSPR

13. Dependant pensions are payable, subject to eligibility, to surviving spouses, civil partners and qualifying children of deceased members of public service pension schemes. For PSPR purposes, dependant pensions are treated in largely the same way as member pensions. Note however the following rules for establishing which PSPR rates apply to a dependant pension:

- If the deceased member **had already retired at the commencement of the dependant pension**, the PSPR regime—pre-March 2012 rates (Groups 1 and 2 in this circular) or post-February 2012 rates (Group 3 in this circular)—applied to the member's pension should be applied to the dependant pension.

- If the deceased **member died in service (or having resigned, died before preserved pension age)**, the PSPR regime—pre-March 2012 rates (Group 1 and 2 in this circular) or post-February 2012 rates (Group 3 in this circular)—that would have applied to the member if going on pension at the time of death should be applied to the dependant pension.

Aggregation for PSPR purposes of multiple pensions held by a pensioner

14. PSPR was originally legislated (in FEMPI 2010) as an imposition on individual public service pensions. Subsequent legislative amendments however have enabled the application of PSPR to **the combined or aggregate value of all such pensions held by a pensioner**, provided that, *inter alia*, the combined value of such multiple pensions held by the pensioner exceeds €32,500 (before PSPR). This "pension aggregation for PSPR purposes", where arising, continues to apply following the enactment of FEMPI 2015.

15. The vast majority of public service pensioners have only one public service pension, so "pension aggregation" for purposes of PSPR application, which is dealt with in more detail at Appendix A, does not arise in most cases.

Pension Adjustment Orders and PSPR

16. The application of PSPR in the case of a pension which is the subject of Pension Adjustment Order (PAO) is dealt with in FEMPI 2010 in section 2(5) (as inserted by section 6(1)(b) of FEMPI 2015), and section 2A(6) (as inserted by section 5(5) of the FEMPI 2013).

17. These sections of the legislation require that for any PAO-affected pension, the original gross undivided pre-PSPR pension amount is first to be subjected to PSPR, with the resultant net amount then being divided for payment in accordance with the split (between member and assignee) stipulated in the PAO.

Disclaimer

18. Insofar as it describes the Public Service Pension Reduction (PSPR) and connected matters, this circular is believed to give correct and pertinent information. However it carries no warranty as to that information, and is not a legal interpretation of the relevant legislation. That legislation, in particular the Financial Emergency Measures in the Public Interest Act 2010 (as amended) in respect of PSPR, is the authoritative reference on the matters covered.

Circulation

19. This circular is a public domain document which this Department will post to customary websites (www.circulars.gov.ie www.per.gov.ie/pensions). It is intended mainly as a reference for personnel in public service workplaces and pension-paying authorities whose duties relate to pensions, and may also be of interest to public servants and public service

pensioners. It can be freely distributed to any employees, retirees, pensioners or other persons according as employers and pension-paying authorities see fit.

20. Personnel Officers in Government Departments / Offices receiving this circular are asked to send it in the normal way to bodies operating under the aegis of their Department / Office.

Queries

21. Queries about this circular may be pursued as follows:

- Individual public servants and public service pensioners should raise queries with their employer / pension-paying authority.

- Public service employers and pension-paying authorities should pursue queries through normal channels (e.g. parent Department) or may send queries (preferably by email, placing "Circular 18/2015 – PSPR" in the subject line) direct to the following officials of this Department:

  Henry O'Mara [email: henry.o'mara@per.gov.ie; tel: 01-6045493]

  Finbar O hAnnrachain [email: Finbar.O'Hannrachain@per.gov.ie; tel: 01-6045448]

Mise le meas,

Oonagh Buckley
Assistant Secretary

APPENDIX A

Aggregation of pensions for purposes of the Public Service Pension Reduction (PSPR)

1. The Public Service Pension Reduction (PSPR) became law under the Financial Emergency Measures in the Public Interest Act 2010 ("FEMPI 2010") as an imposition on **individual public service pensions**. Subsequent amendments to that Act in 2012 and 2013 put in place a basis for applying PSPR to the **combined or aggregate value of all such pensions held by a pensioner**, subject to certain conditions. The commencement date for this "PSPR aggregation", 1 September 2013, was set by the Minister for Public Expenditure and Reform.

2. The Financial Emergency Measures in the Public Interest Act 2015 ("FEMPI 2015") does not change the rules concerning pension aggregation for PSPR purposes. By way of setting out these rules, note that where a person has two public service pensions, those pensions are added together for purposes of the imposition of PSPR **only when both of the following conditions are met:**

(i) The combined pre-PSPR value of the pensions must exceed €32,500.

(ii) The pensions must have a common origin as follows;

(a) each pension must be in respect of a retirement (or death of member) before 1 March 2012,
or
(b) each pension must be in respect of a retirement (or death of member) on or after 1 March 2012.

For clarity, condition (ii) above means that if one of the two pensions is in category "(a)" and the other is in the category "(b)" then they must not be aggregated for PSPR purposes.

3. In the rare event of a person having three (or more) public service pensions then the rules set out at paragraph 2 just above (for two-pension cases) can be generalised as appropriate.

4. In 2013 the Department of Public Expenditure and Reform (DPER) sent lists of multi-pension pensioners who qualified to be affected by "PSPR aggregation" to public service pension-paying authorities (payrolls). These lists, which contained comprehensive relevant details of the pensions concerned, were prepared by DPER following large-scale census-type data acquisition from public service pensioner payrolls. Following the issuing of these pensioner lists, the appropriate payroll adjustments were made so that, commencing 1 September 2013, and in respect of any such pensioner case,

- PSPR, as calculated on the combined or aggregated values of the pensions, is subtracted from the higher (or highest) value pension only, with

- PSPR being discontinued (if previously applied) in the case of the lower value pension (or pensions); such lower value pension(s) would rise in value assuming a prior, pre-aggregation, imposition of PSPR.

5. In addition to pensioners covered by these 2013-prepared lists, certain other pensioners (generally new retirees or new survivor pension recipients) have since then been subjected to aggregation of pensions for PSPR purposes. These new cases have been identified and actioned by individual pension paying authorities. Such new cases typically are identified when, at pension award time, a pensioner is asked by the pension-paying authority to declare any other public service pensions which he or she receives, and duly declares the existence of such another pension. Following liaison between the two pension-paying authorities in such cases, the combined PSPR treatment set out at paragraph 4 of this Appendix is implemented.

6. Public service pension-paying authorities should continue to identify and act on any new cases where pension aggregation for PSPR purposes is warranted. In this connection persons being awarded a public service pension are legally obliged, under section 6A(1) of FEMPI 2010 (as inserted by section 72 of the Public Service Pensions (Single Scheme and Other Provisions) Act 2012) to provide all necessary information for the purposes of such possible pension aggregation as may be requested by pension-paying authorities.

7. In simple terms this means that each pension paying authority, prior to commencing payment of a public service pension (whether to a member or dependant), can require the recipient to declare any other public service pensions held. For the purposes of possible PSPR aggregation, such information should be sought routinely in respect of all new pension awards. Where the information provided points to the existence of a second pension, any necessary liaison with the pension-paying authority for that second pension should be initiated, and the appropriate adjustment to the pay-out values of each pension, if aggregation for PSPR purposes is indicated, should be made.

8. As indicated above, new-case PSPR-aggregation instances can be identified and dealt with by the relevant pension-paying authorities, **and there is no requirement to refer such cases to DPER**. Any queries pension-paying authorities may nonetheless have concerning such cases can be followed up with DPER through the contact channels set out at paragraph 21 of the circular.